

Fiscal Note

Fiscal Services Division



SF 451 – Water Utility Replacement Tax (LSB 1427SV)

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Fiscal Note Version – New

Description

Senate File 451 exempts rate-regulated water utility companies from property taxation and puts in place a replacement tax system based on the volume of water sold to consumers. This Bill also subjects the property to a special state property tax equal to three cents per thousand of assessed property value. This Bill is effective retroactive to property assessment year 2013.

Background

There is currently one rate-regulated water utility operating in Iowa. That company serves the Clinton and Quad Cities areas. The company's property tax liability was \$2,978,000 for FY 2013.

Assumptions

- The total taxable value of all water utility companies in Iowa has grown at an average annual rate of 2.7% per year from assessment year (AY) 1999 through AY 2012. The one rate-regulated company represents more than 90.0% of all water utility company taxable value in the state.
- From FY 2001 through FY 2013, the average property tax rate for the combination of Clinton and Scott counties has increased at an average annual rate of 1.4% per year.
- From calendar year (CY) 2008 through CY 2012, the gallons of water sold to customers by the water company decreased at an average annual rate of 0.3% per year.

Fiscal Impact

Under current law, the future change in the taxable value of the water company, as well as the change in the property tax rate, is not known. Recent taxable value and rate history indicates that under current law, the total tax liability of the company could be expected to increase each year by 4.0% or more per year.

Under **SF 451**, the property tax liability of the company will change only with the increase or decrease in the gallons of water sold. Recent history indicates that gallons sold have declined slightly. Therefore, the company's property tax liability, when based on gallons sold, should be expected to also decline slightly through the years.

The new replacement tax system is projected to change the company's property tax liability from one that increases 4.0% or more per year, to one that decreases slightly each year. This Bill contains a provision that will keep property tax revenue paid to the impacted local government's level for three fiscal years.

This Bill also creates a special state property tax to be paid by the company, with the revenue from the tax deposited to the State General Fund. This will increase General Fund revenue by less than \$4,500 per year, beginning in FY 2015.

Sources

Department of Management property tax files
Iowa American Water Company
Department of Revenue
Utilities Board

/s/ Holly M. Lyons

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The fiscal note for this bill was prepared pursuant to [Joint Rule 17](#) and the Iowa Code. Data used in developing this fiscal note is available from the Fiscal Services Division of the Legislative Services Agency upon request.
